



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Cosmopolis

Grays Harbor County

For the period January 1, 2012 through December 31, 2013

Published December 29, 2014

Report No. 1013222





Washington State Auditor
Troy Kelley

December 29, 2014

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

Report on Financial Statements

Please find attached our report on the City of Cosmopolis' financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Schedule of Audit Findings and Responses

**City of Cosmopolis
Grays Harbor County
January 1, 2012 through December 31, 2013**

- 1. The City has not effectively managed its operations, resulting in a decline in its financial condition.**

Description of Condition

The City's financial position has declined over the past several years. The City's total cash and investments balances were:

Fiscal Year	Total Cash & Investments
2010	\$1,112,805
2011	1,198,868
2012	1,096,055
2013	863,510

The City's General Fund had the following cash and investment balances that were not restricted and available for spending:

December 31, 2012	December 31, 2013	October 31, 2014
70,200	(82,164)	(155,481)

The City is anticipating that at the end of fiscal year 2014 the General Fund will have a deficit which will require an inter-fund loan from restricted funds in order to continue operations.

In addition, as communicated in Finding No. 1 in the Accountability Audit Report, the City lacks adequate internal controls over financial operations to ensure public funds are safeguarded.

Cause of Condition

The City did not react to economic events and establish a formal plan to improve its financial position by altering current operations or reducing expenses.

Effect of Condition

The City is at risk of not being able to meet financial obligations or maintain services at its current levels. This could result in the City needing to cut services or obtain bank loans or find other sources of funding, which may be an additional cost to taxpayers.

Recommendation

We recommend the City:

- Adopt and follow a formal comprehensive plan that includes detailed financial benchmarks and guidelines to specifically meet the needed funding requirements.
- Closely monitor and evaluate its financial activities to ensure the plan is being followed and the desired results are achieved.
- Revise the plan as needed to resolve the funding issues.

City's Response

The Mayor and Council are aware of the financial position of the City in terms of revenue shortfalls and spending.

The Mayor will soon present to the Council proposals/ideas to rectify both spending and revenue shortfalls, for example but not limited to the following:

- *Review and revise the Cumulative Reserve Ordinance*
- *Review and possibly change the threshold for the payment of B & O taxes*
- *The Treasurer's office will provide a quarterly statement to the Mayor and the Council indicating the City's current financial position vis a vis revenue vs expenditure.*
- *Employ the use of inter-fund loans to partially correct the city's current position*
- *The Mayor will appoint a working Finance Committee which will meet regularly to monitor the City's finances and report to the Council*
- *The Mayor will meet regularly with Department Heads to monitor expenditures*

Auditor's Remarks

We appreciate the steps the City is taking to resolve this issue. We will review the condition during our next audit.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**City of Cosmopolis
Grays Harbor County
January 1, 2012 through December 31, 2013**

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Cosmopolis, Grays Harbor County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated December 18, 2014.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Our report includes information about the status of the City's financial condition. This information is more fully described in Finding 1 in the Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

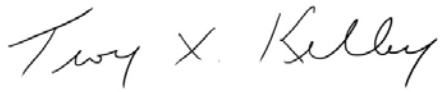
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to

disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

December 18, 2014

Independent Auditor's Report on Financial Statements

City of Cosmopolis Grays Harbor County January 1, 2012 through December 31, 2013

Mayor and City Council
City of Cosmopolis
Cosmopolis, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Cosmopolis, Grays Harbor County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Cosmopolis has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Cosmopolis, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Cosmopolis, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis Regarding Financial Sustainability

As discussed in Note 7 to the financial statements and described in Finding 1 in the Schedule of Audit Findings and Responses, the City's declining cash and investment balances and negative balance in the general fund as of December 31, 2013, reflects the significant cash flow challenges affecting City operations. The City's cash flow constraints are expected to continue in the near future. As a result, there exists uncertainty about the City's ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

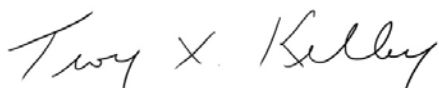
Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

City's Response to Finding

The City's response to the finding identified above, is described in the accompanying Schedule of Audit Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

December 18, 2014

Financial Section

**City of Cosmopolis
Grays Harbor County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fund Resources and Uses Arising from Cash Transactions – 2012
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Notes to Financial Statements – 2013 and 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 Current Expense Fund	101 Street Fund	109 REET
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	856,425	283,792	0	108,498
30880	Beg Fund Bal-Unreserved	235,041	55,476	10,800	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,354,125	1,094,107	154,448	6,750
320	Licenses & Permits	35,380	35,380	0	0
330	Intergovernmental Revenues	147,221	104,719	42,502	0
340	Charges for Goods and Services	792,473	12,005	0	0
350	Fines & Penalties	38,503	38,503	0	0
360	Miscellaneous Revenues	25,883	11,715	0	0
Total Operating Revenues:		2,393,587	1,296,428	196,950	6,750
Operating Expenditures					
510	General Government	425,460	417,318	0	7,213
520	Public Safety	799,535	785,109	0	14,426
530	Utilities	717,670	52,853	0	0
540	Transportation	215,469	9,621	205,043	806
550	Natural and Economic Environment	18,010	18,010	0	0
560	Social Services	182	182	0	0
570	Culture And Recreation	126,078	118,803	1,762	5,513
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		2,302,404	1,401,895	206,804	27,958
Net Operating Increase (Decrease):		91,183	-105,468	-9,854	-21,208
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	21,065	21,065	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	15,000	15,000	0	0
Total Nonoperating Revenues:		36,065	36,065		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	89,210	89,210	0	0
591-593	Debt Service	195,644	22,313	0	0
594-595	Capital Expenditures	59,878	25,511	824	0
597	Transfers-Out	15,000	0	0	0
Total Nonoperating Expenditures:		359,732	137,034	824	
Increase (Decrease) in Cash and Investments		-232,484	-206,436	-10,678	-21,208
Ending Cash and Investments					
50810	End Fund Bal-Reserved	752,625	222,892	0	87,290
50880	End Fund Balance-Unreserved	106,145	-90,270	122	0

The accompanying notes are an integral part of this Statement.

BARS Code		204 Utgo Bond Redemption Fund 1997	401 Water Fund	402 Sewer Fund	701 Cemetery Perpetual Care Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	56,994	0	0	84,141
30880	Beg Fund Bal-Unreserved	0	37,274	131,490	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	98,820	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	392,631	385,533	2,305
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	151	12,415	0
Total Operating Revenues:		98,820	392,781	397,948	2,305
Operating Expenditures					
510	General Government	0	0	929	0
520	Public Safety	0	0	0	0
530	Utilities	0	331,835	332,983	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			331,835	333,912	
Net Operating Increase (Decrease):		98,820	60,947	64,036	2,305
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	109,420	31,541	32,369	0
594-595	Capital Expenditures	0	33,543	0	0
597	Transfers-Out	0	0	0	15,000
Total Nonoperating Expenditures:		109,420	65,084	32,369	15,000
Increase (Decrease) in Cash and Investments		-10,600	-4,137	31,667	-12,695
Ending Cash and Investments					
50810	End Fund Bal-Reserved	46,395	0	0	71,446
50880	End Fund Balance-Unreserved	0	33,136	163,157	0

The accompanying notes are an integral part of this Statement.

BARS Code		702 Makarenko Park Reserve Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	323,000
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	1,603
Total Operating Revenues:		1,603
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities	0
540	Transportation	0
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		
Net Operating Increase (Decrease):		1,603
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		
Increase (Decrease) in Cash and Investments		1,603
Ending Cash and Investments		
50810	End Fund Bal-Reserved	324,603
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 Current Expense Fund	101 Street Fund	109 Real Estate Excise Tax (reet)
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	669,284	0	68,177	104,436
30880	Beg Fund Bal-Unreserved	528,432	404,949	6,489	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	1,361,217	1,075,744	175,207	4,061
320	Licenses & Permits	35,978	35,978	0	0
330	Intergovernmental Revenues	276,838	74,579	202,259	0
340	Charges for Goods and Services	747,785	12,214	0	0
350	Fines & Penalties	47,990	47,990	0	0
360	Miscellaneous Revenues	89,980	57,498	13,355	0
Total Operating Revenues:		2,559,787	1,304,004	390,821	4,061
Operating Expenditures					
510	General Government	419,567	418,509	0	0
520	Public Safety	736,793	736,793	0	0
530	Utilities And Environment	688,442	53,819	0	0
540	Transportation	301,486	0	301,486	0
550	Economic Environment	12,582	12,582	0	0
560	Mental & Physical Health	470	470	0	0
570	Culture And Recreation	77,565	77,565	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		2,236,904	1,299,738	301,486	
Net Operating Increase (Decrease):		322,884	4,265	89,335	4,061
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	125,746	26,109	67,000	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:		125,746	26,109	67,000	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	101,015	34,015	0	0
591-593	Debt Service	208,360	36,735	0	0
594-595	Capital Expenditures	246,471	26,271	220,200	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		555,846	97,021	220,200	
Increase (Decrease) in Cash and Investments		-107,217	-66,647	-63,865	4,061
Ending Cash and Investments					
50810	End Fund Bal-Reserved	856,425	283,792	0	108,498
50880	End Fund Balance-Unreserved	235,041	55,476	10,800	0

The accompanying notes are an integral part of this Statement.

BARS Code		204 Utgo Bond Redemption Fund 1997	401 Water Fund	402 Sewer Fund	701 Cemetery Perpetual Care Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	57,943	0	0	81,366
30880	Beg Fund Bal-Unreserved	0	33,269	83,725	0
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	106,204	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	386,962	345,833	2,775
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	13	19,115	0
Total Operating Revenues:		106,204	386,975	364,948	2,775
Operating Expenditures					
510	General Government	0	0	1,058	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	350,867	283,756	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:			350,867	284,814	
Net Operating Increase (Decrease):		106,204	36,108	80,134	2,775
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	0
Total Nonoperating Revenues:					
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	107,153	32,103	32,369	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		107,153	32,103	32,369	
Increase (Decrease) in Cash and Investments		-949	4,005	47,765	2,775
Ending Cash and Investments					
50810	End Fund Bal-Reserved	56,994	0	0	84,141
50880	End Fund Balance-Unreserved	0	37,274	131,490	0

The accompanying notes are an integral part of this Statement.

BARS Code		702 Makarenko Park Reserve Fund
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	357,362
30880	Beg Fund Bal-Unreserved	0
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	0
Total Operating Revenues:		
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities And Environment	0
540	Transportation	0
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		
Net Operating Increase (Decrease):		0
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	32,638
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		32,638
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	67,000
591-593	Debt Service	0
594-595	Capital Expenditures	0
597	Transfers-Out	0
Total Nonoperating Expenditures:		67,000
Increase (Decrease) in Cash and Investments		-34,362
Ending Cash and Investments		
50810	End Fund Bal-Reserved	323,000
50880	End Fund Balance-Unreserved	0

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	660 Municipal Court Agency Account
308	Beginning Cash and Investments	4,693	4,693
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	0	0
380-390	Other Increases and Financing Sources	65,205	65,205
510-570	Expenditures	0	0
580-590	Other Decreases and Financing Uses	65,158	65,158
Increase (Decrease) in Cash and Investments		47	47
508	Ending Cash and Investments	4,740	4,740

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds	660 Municipal Court Agency Account
308	Beginning Cash and Investments	0	0
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	3,569	3,569
370-390	Other Increases and Financing Sources	79,531	79,531
510-570	Expenditures	0	0
580-590	Other Decreases and Financing Uses	78,407	78,407
Increase (Decrease) in Cash and Investments		4,693	4,693
508	Ending Cash and Investments	4,693	4,693

The accompanying notes are an integral part of this Statement.

City of Cosmopolis
Notes to Financial Statements
Fiscal Period Ending December 31, 2012 and 2013

Note 1 - Summary of Significant Accounting Policies

The City of Cosmopolis reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Cosmopolis was incorporated on June 10, 1891 and operates under the laws of the state of Washington applicable to a Code City. The City of Cosmopolis is a general purpose government and provides public safety, street improvements, parks and recreation, and general administration services. The City of Cosmopolis uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Cosmopolis are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Cosmopolis resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Cosmopolis:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the City of Cosmopolis. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Cosmopolis.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the city in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that the city holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the City of Cosmopolis also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City of Cosmopolis adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the fiscal year 2012 legally adopted budgets were as follow:

2012 BUDGET

	<i>appropriated</i>	<i>expenditures</i>	<i>Variance</i>
General Fund	1,469,222	1,264,911	204,311
Equipment Reserve	127,500	63,006	64,494
Ambulance	61,184	67,979	(6,795)
<u>Total General Fund</u>	<u>1,657,906</u>	<u>1,395,896</u>	<u>262,010</u>
Street	783,413	521,686	261,727
Special Revenue Fund LID	66,000	-	66,000
REET	112,300	-	112,300
UTGO 1997	128,272	107,153	21,119
Water	494,400	386,704	107,696
Sewer	406,200	317,183	89,017
Makarenko Park Reserve	345,000	67,000	278,000
	3,993,491	2,795,622	1,197,869

The appropriated and actual expenditures for the fiscal year 2013 legally adopted budgets were as follow:

	Final Appropriated	Actual	
Fund/Department	Amounts	Expenditures	Variance
General Fund	\$ 1,643,505	\$ 1,409,312	\$ 234,193
Equipment Reserve	\$ 158,000	\$ 66,247	\$ 91,753
Ambulance Fund	\$ 64,243	\$ 63,478	\$ 765
Street Fund	\$ 272,864	\$ 207,629	\$ 65,235
REET (Real Estate Excise Tax)	\$ 114,939	\$ 27,958	\$ 86,981
UTGO Bond Redemption	\$ 128,272	\$ 109,420	\$ 18,852
Water Fund	\$ 422,403	\$ 396,919	\$ 25,484
Sewer Fund	\$ 472,400	\$ 365,352	\$ 107,048
LID 99-1	\$ 66,000	\$ 929	\$ 65,071
Cemetery Perpetual Care	\$ 83,916	\$ 15,000	\$ 68,916
Makarenko Park Reserve	\$ 390,000	\$ -	\$ 390,000

Budgeted amounts are authorized to be transferred between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City of Cosmopolis's legislative body.

D. Cash

It is the City of Cosmopolis's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is distributed to the general fund of the city.

E. Deposits

The City of Cosmopolis deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

F. Investments - See Note 2, Investments

G. Capital Assets

Capital assets are assets with an initial individual cost of more than \$500.00 and an estimated useful life in excess of 3 years. Capital assets are long-lived assets of the City of Cosmopolis and are recorded as expenditures when purchased.

H. Compensated Absences

Vacation leave may be accumulated up to twenty five days and is payable upon separation or retirement.

Sick leave may be accumulated 960 hours. Upon separation or retirement employees do receive payment for unused sick leave.

I. Long-Term Debt See Note, *Debt Service Requirements*.

K. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of capital leases, or loans.

L. Risk Management

The City of Cosmopolis is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of September 1, 2013, there are 236 members in the program.

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including automobile comprehensive

and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. Members are responsible for a \$1,000 deductible for each claim, while the program is responsible for the remaining \$100,000 self-insured retention. Insurance carrier covers insured losses over \$101,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 portion of the self-insured retention. The pool also purchases a Stop Loss Policy, with an attachment point of \$3,247,000. To cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for the first \$1,000 of the deductible amount of each claim. The pool bears the \$25,000 self-insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500 (\$10,000 for Pumps & Motors). Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2013 were \$1,423,059.12.

M. Reserved Fund Balance

The City has reserved fund balances in the following funds at the end of fiscal year 2012:

002 Fire Equipment Fund	105,743
003 Cumulative Reserve Fund	51,175
007 Equipment Reserve Fund	116,651
011 Cemetery Advanced Fund	6010
012 Makarenko Park	4214
109 REET	108,498
204 UTGO '97 BOND	56,994
701 Cemetery Perpetual Care	84,141
702 Makarenko	323,000

The City has reserved fund balances in the following funds at the end of fiscal year 2013:

002 Fire Equipment Fund	105,818
003 Cumulative Reserve	42,631
007 Equipment Reserve	81,164
011 Cemetery Advanced Fund	6,010
012 Makarenko Park	(12,731)
109 REET	87,290
204 UTGO Bond	57,943
701 Cemetery Perpetual Care	81,366
702 Makarenko Reserve	357,362

Fire Equipment to be used by the Fire Dept. only. Cumulative Reserve to be set aside for future emergencies per resolution. Equipment Reserve to be used for capital expenses vehicles, equipment. Advanced Cemetery to be used for funeral services for those who have paid in advance. Makarenko Park is interest from a permanent fund to be used at Makarenko Park only. REET restrictions imposed by RCW 82.46.030. UTGO '97 Bond is to be used for debt repayment of general obligation bonds for the fire hall. Cemetery Perpetual Care to be used for the care of the cemetery only. Makarenko Park Reserve Fund donated to the City and permanent only interest can be used.

Note 2 - Investments

The City of Cosmopolis's investments are either insured, registered or held by the City of Cosmopolis or its agent in the City of Cosmopolis's name.

Investments are presented at cost.

Investments by type at December 31, 2012 are as follows:

<u>Type of Investment</u>	City Cosmopolis Own investments	Investments held by City of Cosmopolis as an agent for other local governments, individuals or private organizations.	Total
L.G.I.P.	\$ 466,646.03	\$ 0	\$466,646.03
U.S. Government Securities			
Other: <u>Morgan</u>	<u>523,824.99</u>	<u>0</u>	<u>523,824.99</u>
<u>Stanley</u>			
Total	\$ <u>990,471.02</u>	\$ <u>0</u>	\$ <u>990,471.02</u>

Investments by type at December 31, 2013 are as follows:

Type of Investment	City's own Investments	City as an agent for other local governments, individuals or private	Total
L.G.I.P.	\$ 222,114.97		\$ 222,114.97
Morgan Stanley-	\$ 525,502.99		\$ 525,502.99
			\$ -
			\$ -
Total	\$ 747,617.96		\$ 747,617.96

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by City of Cosmopolis. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Cosmopolis regular levy for the year 2012 was \$3.217 per \$1,000 on an assessed valuation of \$117,825,843 for a total regular levy of \$379,046.

The City of Cosmopolis regular levy for the year 2013 was \$2.4679563 per \$1,000 on an assessed valuation of \$164,275,192 for a total regular levy of \$405,424.

The City has a general obligation bond for its Fire Station. The levy for this voted debt obligation is .6793539 per \$1,000 on an assessed valuation of \$161,064,393 for a total levy of \$109,420.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2012:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2011</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2012</u>
001	702	<u>\$32,637.63</u>	<u>\$ 0</u>	<u>\$32,637.63</u>	<u>\$ 0</u>
101	702	<u> </u>	<u>67,000.00</u>	<u>0</u>	<u>67,000.00</u>
	TOTALS	<u>\$ 32,637.63</u>	<u>\$ 67,000.00</u>	<u>\$ 32,637.63</u>	<u>\$ 67,000.00</u>

Restated balance for 2012 to tie to outstanding loan balance with 702

The following table displays interfund loan activity during 2013:

Borrowing Fund	Lending Fund	Balance 1/1/13	New Loans	Repayments	Ending Balance 12/31/13
101	702	\$ 67,000.00	\$ -	\$ -	\$ 67,000.00

Note 5 – Debt Service Requirements

The accompanying Schedules of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Cosmopolis and summarizes the City of Cosmopolis's debt transactions for years ended December 31, 2012 and 2013.

The debt service requirements for general obligation bonds, revenue bonds and other debt including both principle and interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2014	\$116,475.00		\$85,662.23	\$ 202,137.23
2015	\$107,800.00	\$ -	\$85,100.67	\$ 192,900.67
2016	\$104,000.00	\$ -	\$84,539.11	\$ 188,539.11
2017	\$ -	\$ -	\$58,772.41	\$ 58,772.41
2018	\$ -	\$ -	\$44,162.28	\$ 44,162.28
2019-2020	\$ -	\$ -	\$75,969.87	\$ 75,969.87
TOTALS	\$328,275.00	\$ -	\$434,206.57	\$ 762,481.57

Note 6 – Pension Plans

Substantially all City of Cosmopolis full-time and qualifying part-time employees participate in Pers II and Leoff II plan(s) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Cosmopolis financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Note 7 – Financial Position

The Mayor and Council are aware of the financial position of the City in terms of revenue shortfalls and spending. The Mayor will soon present to the Council proposals/ideas to rectify both spending and revenue shortfalls, for example but not limited to the following:

- Review and revise the Cumulative Reserve Ordinance.
- Review and possible change the threshold for the payment of B&O taxes.
- The Treasurer's office will provide a quarterly statement to the Mayor and Council indication the City's current financial position vis a vis revenue vs expenditure.
- Employ the use of inter-fund loans to partially correct the City's current position.
- The Mayor will appoint a working Finance Committee which will meet regularly to monitor the City's finances and report to the Council
- The Mayor will meet regularly with Department Heads to monitor expenditures.

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	251.19	GO Bond 1997 - Refinanced 2009	2/1/2016	400,000	0	95,000	305,000
	263.51	Peterbilt - Lease/Purchase	2/28/2017	83,557	0	17,799	65,758
	259.11	Compensated Absence - GO		142,567	2,675	0	145,242
Total General Obligations:				626,124	2,675	112,799	516,000
Revenue Obligations							
	263.82	PWTF - Water -4/2001	4/1/2018	78,548	0	11,231	67,317
	263.52	Water Meters - 3/2007	3/21/2017	67,198	0	13,621	53,577
	263.82	DOE - Sewer 10/2000	10/15/2020	218,883	0	23,635	195,248
	259.12	WATER - Compensated Absence Liability		13,576	0	889	12,687
	259.12	SEWER - Compensated Absence Liability		13,576	0	889	12,687
Total Revenue Obligations:				391,781	0	50,265	341,516
Total Liabilities:				1,017,905	2,675	163,064	857,516

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	251.12	GO Bond 1997 - Refinanced 2009	2/1/2016	490,000	0	90,000	400,000
	263.51	Peterbilt -Lease/Purchase	2/28/2017	0	116,116	32,559	83,557
	259.11	Compensated Absence Liability-G.O.	12/31/2012	137,786	4,781	0	142,567
Total General Obligations:				627,786	120,897	122,559	626,124
Revenue Obligations							
	263.82	PWTF - Water April 2001	4/1/2018	89,779	0	11,231	78,548
	263.52	Water Meters - March 2007	3/21/2017	80,138	0	12,940	67,198
	263.82	DOE - SEWER - October 2000	10/15/2020	241,578	0	22,695	218,883
	259.12	Compensated Absence Liability-Revenues-Water	12/31/2012	14,674	0	1,098	13,576
	259.12	Compensated Absence Liability-Revenue-Sewer	12/31/2012	14,674	0	1,098	13,576
Total Revenue Obligations:				440,843	0	49,062	391,781
Total Liabilities:				1,068,629	120,897	171,621	1,017,905

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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